

ILLINOIS DEPARTMENT OF REVENUE

MONTHLY REVENUE REPORT

March

Fiscal Year 2011

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Research Division

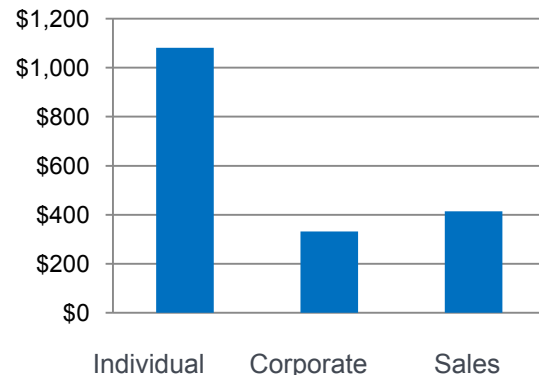
This report analyzes the major revenues the Illinois Department of Revenue (IDOR) Research Division forecasts. It examines how actual revenues compare with the previous year and with current FY 2011 estimates. The current estimates are those contained in the Governor's Fiscal Year 2012 Operating Budget and are labeled the revised estimates.

Through the first three quarters of FY 2011, individual income, corporate income and sales taxes ("big three" revenue sources) were \$1,826 million (14.7 percent) above the same time period in FY 2010.

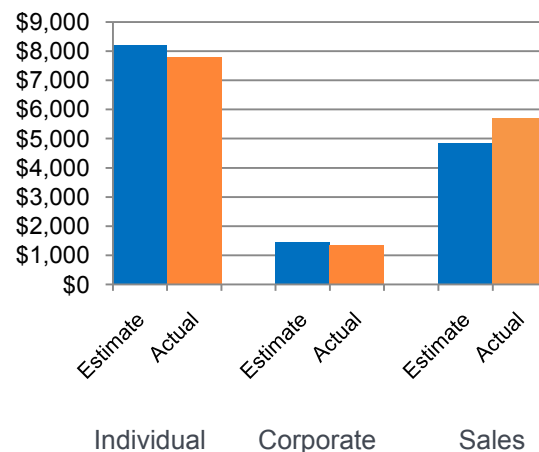
The combined Year-to-Date revenue receipts for the big three are \$238 million (1.6 percent) below the revised estimates for the reasons detailed below.

- Individual income tax receipts are \$389 million below revised estimates, entirely because of delayed receipt of \$377 million in withholding taxes that will be received in FY 2012 and a \$35 million impact because the revised estimate assumed decoupling from federal bonus depreciation.
- Corporate income taxes are \$65 million below the revised estimates, largely from a \$45 million impact because the revised estimate assumed decoupling from federal bonus depreciation.
- Sales tax receipts are \$216 million above the revised estimates.

**Increase in Year-to-Date Revenues
FY 2010 and FY 2011 (in millions)**



**Year-to-Date Revised Estimates and
Actual Receipts for FY 2011 (in millions)**



Background

In December, IDOR's Research Division presented revenue estimates for the major revenue sources along with estimates associated with various income tax rate increases to the Governor's Council of Economic Advisors (CEA). The CEA reviewed the estimates and recommended a relatively slow growth economic forecast for the underlying drivers. We used the midpoint between IHS Global Insight's (an economic analysis and forecasting service) pessimistic and baseline forecasts.

We prepared revenue estimates associated with various income tax rates using all 5.6 million actual 2008 IL-1040 tax returns. We completed a cash-flow analysis to account for some estimated and final payments that would be received at the 3 percent rate in FY 2011. Adjustments made to withholding income tax payments and estimated and final payments (non-withholding) brought estimates into revised forecasts for FY 2011 and FY 2012. The major non-economic factors influencing FY 2011 revenues:

- **Tax rate increases:** A bill increasing the income tax for individuals, trusts, and estates from 3 percent to 5 percent and for corporations from 4.8 percent to 7 percent was signed on January 13, 2011. Estimates from the model assumed a January 1 implementation date, therefore the estimates did not account for a lag in receiving withholding taxes at the higher rate. Because of this, we estimate a shortfall in FY2011 (associated with the withholding) of \$377 million, all of which will be received in FY 2012.
- **Amnesty:** Illinois taxpayers who paid eligible taxes during the amnesty period, (October 1 to November 8, 2010) received a waiver of all associated interest and penalties. Beginning November 9, 2010, penalties and interest doubled on unpaid taxes. Companies scheduled for audit and taxpayers in the collection process took advantage of the program to make payments to ensure their debt was paid in full. IDOR received amnesty payments from more than 78,000 taxpayers and collected \$717 million in payments, some of which went to local governments and the state's Refund Fund. The majority of revenue received under amnesty was in the form of corporate income, personal property replacement, sales, and telecommunications taxes.

Some revenue collected under the amnesty program would have been collected during FY 2011 and beyond. For example, taxpayers that would have been audited or who would have settled later in the current fiscal year or next fiscal year came forward in advance and made payments under amnesty. We estimate that the amnesty program shifted into the first half of FY 2011 approximately \$165 million from the second half of fiscal year 2011; \$150 million from fiscal year 2012; and \$390 million in subsequent years. We reduced our baseline revenue estimates accordingly.

- **Bonus depreciation:** New federal legislation allows firms to expense capital spending in one year, rather than depreciate over a period of years. Our estimates assumed Illinois would decouple from this federal provision. If this action does not occur, estimated revenues will decrease by \$35 million for individual income tax and \$45 million for corporate income tax.

Technical Note

Due to rounding of some receipt numbers, there may be some variations in the dollar and percentage amounts shown in report tables.

Income Taxes

Individual income tax (IIT)

Year-to-Date Comparison: FY 2010 versus FY 2011				
(\$ million)	FY 2010	FY 2011	\$ Difference	% Difference
Total	\$6,723.2	\$7,803.4	\$1,080.2	16.1%
First quarter	\$2,104.3	\$2,132.2	\$27.9	1.3%
Second quarter	\$2,109.6	\$2,173.4	\$63.8	3.0%
Third quarter	\$2,509.3	\$3,497.8	\$988.5	39.4%
Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
(\$ million)	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
Total	\$7,803.4	\$8,192.0	-\$388.6	-4.7%
Withholding	\$6,986.5	\$7,358.5	-\$372.0	-5.1%
Estimated & Final Payments	\$816.9	\$833.5	-\$16.6	-2.0%

Note: Year-to-Date receipts include \$40.9 million in amnesty related payments.

Receipts associated with the individual income tax increase initially came in more slowly than estimated. However, IDOR believes that \$377 million originally estimated to be received as withholding payments in the third quarter of FY 2011 will be accounted for in increased final payments or reduced refunds in April 2012 (FY 2012). In addition, Illinois has not decoupled from the federal bonus depreciation legislation. Not decoupling is estimated to reduce FY 2011 individual income tax receipts by \$35 million.

It appears that underlying growth associated with economic activity is coming in at the rate forecast in the revised budget.

The FY 2011 individual income tax is estimated at \$12,565 million in the Governor's FY 2012 Operating Budget Book. Taking into account the factors discussed above, we now estimate FY 2011 receipts to come in at \$12,153 million (\$412 million lower than the revised estimate).

Corporate income tax (CIT)

Year-to-Date Comparison: FY 2010 versus FY 2011				
(\$ million)	FY 2010	FY 2011	\$ Difference	% Difference
Total	\$1,055.9	\$1,388.2	\$332.3	31.5%
First quarter	\$291.6	\$321.2	\$29.6	10.2%
Second quarter	\$329.9	\$625.2	\$295.3	89.5%
Third quarter	\$434.4	\$441.8	\$7.4	1.7%
Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
(\$ million)	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
	\$1,388.2	\$1,453.4	-\$65.2	-4.5%

Note: Year-to-Date receipts include \$302.2 million in amnesty related payments.

We believe corporate income tax receipts are coming in slightly below estimate primarily because Illinois has not decoupled from the federal bonus depreciation legislation. This downward pressure on corporate income tax receipts is estimated at \$45 million in FY 2011.

The first revenue associated with the corporate income tax rate increase is due in April 2011 in the form of estimated payments. Once these estimated payments have been received and processed IDOR will be in a position to make a further revision to the corporate income tax estimate if necessary.

Sales Tax

Year-to-Date Comparison : FY 2010 versus FY 2011				
(\$ million)	FY 2010	FY 2011	\$ Difference	% Difference
Total	\$4,663.8	\$5,077.8	\$414.1	8.9%
Year-to-Date FY 2011 Actual versus FY 2011 Estimate				
(\$ million)	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
Total	\$5,077.8	\$4,862.2	\$215.7	4.4%

Note: Year-to-Date receipts include \$163.4 million in amnesty related payments.

When comparing Year-to-Date FY 2011 receipts to either FY 2010 receipts or the revised budget book forecast, we must make two separate sets of comparisons: one that includes receipts related to FY 2011's tax amnesty program, and one that excludes amnesty-related receipts. Only by excluding amnesty-related receipts can we get a clear sense of how economic activity is driving revenue performance.

Year-to-Date Comparison without amnesty related payments: FY 2010 versus FY 2011				
(\$ million)	FY 2010	FY 2011	\$ Difference	% Difference
Total	\$4,663.8	\$4,914.0	\$250.2	5.4%
Vehicles	\$536.0	\$593.4	\$57.5	10.7%
Motor fuel*	\$443.7	\$505.4	\$61.7	13.9%
All else	\$3,684.1	\$3,815.2	\$131.1	3.6%

***Estimated. IDOR does not have actual data on sales tax from motor fuel sales.**

Excluding amnesty related receipts, sales tax is coming in 2.8 percent above budget largely due to stronger than forecasted growth in vehicles and fuel sales.

The short-term outlook for General Revenue Fund sales tax receipts is much improved from just a few months ago. Continued growth is expected but will moderate as annual comparisons move farther from the recent recession. Despite an improved outlook, numerous challenges remain. Employment and wage growth remain weak, revolving credit continues to fall, and the housing market is still significantly distressed with no clear point of recovery in sight.

Excise Taxes

Cigarette and tobacco taxes

(\$ million) March FY 2010 versus March FY 2011				
<i>Cigarette Taxes</i>	March FY 2010	March FY 2011	\$ Difference	% Difference
All Funds*	\$51.0	\$54.4	\$3.4	6.7%
General Revenue Fund	\$29.2	\$29.5	\$0.3	1.0%
(\$ million) Year-to-Date Comparison: FY 2010 versus FY 2011				
<i>Cigarette Taxes</i>	FY 2010	FY 2011	\$ Difference	% Difference
All Funds*	\$418.3	\$418.9	\$0.7	0.2%
General Revenue Fund	\$262.8	\$265.8	\$3.0	1.1%
(\$ million) Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
<i>Cigarette Taxes</i>	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
All Funds*	\$418.9	\$402.7	\$16.3	4.0%
General Revenue Fund	\$265.8	\$262.8	\$3.0	1.1%

*All Funds includes the General Revenue Fund.

There are two possible external policy changes that may provide explanations for why receipts are exceeding expectations:

- The federal Prevent All Cigarette Trafficking (PACT) Act (effective 6/29/10) aims to reduce consumption of untaxed cigarettes and smokeless tobacco.¹ PACT measures include treating these items as non-mailable, imposing new shipping and record keeping requirements, and new civil penalties. Previous analysis estimated the revenue gain from the PACT Act could be \$33 million annually. This estimate was not included in the annual revenue estimate because of too much uncertainty.
- Effective September 1, 2009, the state of Wisconsin (Act 28) increased the tax on a package of 20 cigarettes to \$2.52 compared with \$0.98 per package of 20 cigarettes in Illinois counties bordering Wisconsin.²

(\$ million) March FY 2010 versus March FY 2011				
<i>Tobacco Products</i>	March FY 2010	March FY 2011	\$ Difference	% Difference
	\$0.8	\$2.1	\$1.3	172.8%
(\$ million) Year-to-Date Comparison: FY 2010 versus FY 2011				
<i>Tobacco Products</i>	FY 2010	FY 2011	\$ Difference	% Difference
	\$16.4	\$20.3	\$3.9	23.5%
(\$ million) Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
<i>Tobacco Products</i>	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
	\$20.3	\$16.4	\$3.9	23.5%

The forecast was revised up because the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA, Public Law 111-3) increased the taxable price of tobacco products under Illinois law. CHIPRA did not increase taxes uniformly. A variety of tobacco product substitutions may be contributing to increased revenue. Data availability limits the extent to which this hypothesis can be tested.

¹ Campaign for Tobacco Free Kids "THE PACT ACT Preventing Illegal Internet Sales of Cigarettes & Smokeless Tobacco" March 31, 2010, Retrieved 4-5-2011, <http://www.tobaccofreekids.org/research/factsheets/pdf/0361.pdf>

² Wisconsin Department of Revenue, Division of Research and Policy, "Wisconsin's General Fund Excise Taxes" December 22, 2010, Retrieved 4-5-2011, Taxes <http://www.dor.state.wi.us/ra/10excisetx.pdf>

Excise Taxes *(continued)*

Public utilities taxes

(\$ million) March FY 2010 versus March FY 2011				
	March FY 2010	March FY 2011	\$ Difference	% Difference
Total	\$128.3	\$137.0	\$8.7	6.8%
Telecommunications	\$59.7	\$65.8	\$6.1	10.2%
Electricity	\$34.8	\$41.8	\$7.0	20.1%
Gas	\$33.8	\$29.4	-\$4.4	-13.0%
(\$ million) Year-to-Date Comparison : FY 2010 versus FY 2011				
	FY 2010	FY 2011	\$ Difference	% Difference
Total	\$829.8	\$860.5	\$30.7	3.7%
Telecommunications	\$420.6	\$429.0	\$8.4	2.0%
Electricity	\$291.4	\$315.4	\$23.9	8.2%
Gas	\$117.7	\$116.1	-\$1.6	-1.3%
(\$ million) Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
Total	\$860.5	\$826.8	\$33.7	4.1%
Telecommunications	\$429.0	\$408.0	\$21.0	5.1%
Electricity	\$315.4	\$307.5	\$7.8	2.5%
Gas	\$116.1	\$111.2	\$4.9	4.4%

Note: Year-to-Date telecommunication receipts include \$4.2 million in amnesty related payments which have been deposited into the General Revenue Fund.

Electricity: A much colder than normal winter led to a 13.0 percent increase in heating degree days compared to last year. Increased consumption in the winter months led to receipts being much higher than last year.

Hotel tax

(\$ million) March FY 2010 versus March FY 2011				
	March FY 2010	March FY 2011	\$ Difference	% Difference
All Funds*	\$6.4	\$6.8	\$0.4	5.5%
General Revenue Fund	\$2.4	\$2.4	\$0.1	-2.2%
(\$ million) Year-to-Date Comparison: FY 2010 versus FY 2011				
	FY 2010	FY 2011	\$ Difference	% Difference
All Funds*	\$136.0	\$151.5	\$15.5	11.4%
General Revenue Fund	\$16.4	\$18.4	\$2.0	12.3%
(\$ million) Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
All Funds*	\$151.5	\$153.3	-\$1.8	-1.2%
General Revenue Fund	\$18.4	\$24.4	-\$6.0	-24.5%

***All Funds includes the General Revenue Fund.**

Two factors driving growth year after year are the increased average daily room rates and the occupancy rates. In the first seven months of FY 2011 the average daily room rate in Chicago increased \$11.14 compared with FY 2010. Occupancy rates also increased on average by 2.5 percentage points.

Gaming

Lottery

March FY 2010 versus March FY 2011				
(\$ million)	March FY 2010	March FY 2011	\$ Difference	% Difference
Common School Fund Transfers	\$62.9	\$63.6	\$0.7	1.1%
Year-to-Date Comparison: FY 2010 versus FY 2011				
(\$ million)	FY 2010	FY 2011	\$ Difference	% Difference
Common School Fund Transfers	\$440.1	\$445.0	\$4.8	1.1%
Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
(\$ million)	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
Common School Fund Transfers	\$445.0	\$444.9	\$0	0.0%

Through the end of March 2011, transfers to the Common School Fund were reduced by \$40.3 million because the Lottery had met the year-to-date accumulative transfer target. The excess (\$40.3 million) will be reserved as a potential year end transfer to the Capital Projects Fund. This is an increase of \$8.6 million or 27.1 percent from the prior week's excess (\$31.7 million).

The driving force behind the recent surge is Mega Millions which ended with an advertised jackpot of \$312 million. The supported jackpot was \$319 million and was the ninth largest jackpot in national history and the seventh largest in Mega Millions' history. This compares to the 2010 jackpot for the same week which was only \$40 million.

Riverboat gaming

March FY 2010 versus March FY 2011				
(\$ million)	March FY 2010	March FY 2011	\$ Difference	% Difference
Education Assistance Fund Transfers	\$20.7	\$17.4	-\$3.4	-16.2%
Year-to-Date Comparison: FY 2010 versus FY 2011				
(\$ million)	FY 2010	FY 2011	\$ Difference	% Difference
Education Assistance Fund Transfers	\$288.0	\$258.9	-\$29.1	-10.1%
Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
(\$ million)	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
Education Assistance Fund Transfers	\$258.9	\$259.0	-\$0.1	0.0%

On average, adjusted gross receipt declined 3.14 percent in March compared with March FY 2010 but there are signs of growth. The newer and larger casino, Jumer's Casino & Hotel in Rock Island, and the newly renovated Hollywood Casino in Joliet grew at 10.12 percent and 0.73 percent respectively. Elgin's Grand Victoria Casino, which is typically the strongest performing casino in the Chicago area, grew at 2.14 percent in March compared with March FY 2010. Revenue at the remaining six casinos continued to decline. The worst of the declining casinos, Harrah's Metropolis Casino, fell 18.4 percent in March compared with March FY 2010.

Other

Motor fuel taxes

(\$ million) March FY 2010 versus March FY 2011				
	March FY 2010	March FY 2011	\$ Difference	% Difference
Total	\$116.4	\$107.5	-\$8.9	-7.6%
Motor Fuel Tax	\$109.7	\$101.9	-\$7.8	-7.1%
Underground Storage Tank Tax	\$6.7	\$5.6	-\$1.1	-16.4%
(\$ million) Year-to-Date Comparison: FY 2010 versus FY 2011				
	FY 2010	FY 2011	\$ Difference	% Difference
Total	\$1,005.8	\$993.3	-\$12.5	-1.2%
Motor Fuel Tax	\$952.7	\$940.1	-\$12.6	-1.3%
Underground Storage Tank Tax	\$53.1	\$53.2	\$0.1	0.2%
(\$ million) Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
Total	\$993.3	\$1,016.5	-\$23.2	-2.3%
Motor Fuel Tax	\$940.1	\$965.2	-\$25.1	-2.6%
Underground Storage Tank Tax	\$53.2	\$51.3	\$1.9	3.7%

Estate tax

(\$ million) March FY 2010 versus March FY 2011				
	March FY 2010	March FY 2011	\$ Difference	% Difference
	\$23.3	\$0.7	-\$22.6	-97.0%
(\$ million) Year-to-Date Comparison: FY 2010 versus FY 2011				
	FY 2010	FY 2011	\$ Difference	% Difference
	\$166.7	\$117.8	-\$48.9	-29.3%
(\$ million) Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
	\$117.8	\$122.7	\$-4.9	-4.0%

FY 2011 receipts are down due to the federal estate tax being repealed January 1, 2010. Since Illinois was coupled to provisions of the federal estate tax, there was a direct impact on receipts. There is a ten month lag between a death and when taxes are remitted. Estate tax receipts since November 2010 are from installment payments.

Real estate transfer tax

(\$ million) March FY 2010 versus March FY 2011				
	March FY 2010	March FY 2011	\$ Difference	% Difference
	\$2.5	\$2.0	-\$0.5	-20.0%
(\$ million) Year-to-Date Comparison : FY 2010 versus FY 2011				
	FY 2010	FY 2011	\$ Difference	% Difference
	\$29.6	\$27.0	-\$2.7	-9.0%
(\$ million) Year-to-Date: FY 2011 Actual versus FY 2011 Estimate				
	FY 2011 Act.	FY 2011 Est.	\$ Difference	% Difference
	\$27.0	\$25.7	\$1.3	4.9%

Declining revenue receipts reflect continued weakness in the real estate markets.